

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

*Operating
Fourteen Hundred
Eighty One Stores*

FINANCIAL STATEMENT

December 31, 1935

New York, N. Y.
February 27, 1936

TO THE STOCKHOLDERS OF
J. C. PENNEY COMPANY:

I take pleasure in submitting to you the December 31, 1935 Balance Sheet and the report of 1935 operations of J. C. Penney Company and its subsidiaries, all of which are wholly owned.

We believe the accompanying Balance Sheet will prove a source of satisfaction to the stockholders and will assure continuation of confidence in the operations and financial position of their company. During 1935, our company completed the retirement of the balance of its 6% Preferred stock, which left the Common stock as the only outstanding stock of the company. Also, its subsidiary, the J. C. Penney Building & Realty Corporation, retired the balance of its outstanding bonds. The present position of J. C. Penney Company confirms the wisdom of this procedure, which was taken, of course, for obvious reasons. The cash balance, in the opinion of the management, remains ample for sound operating purposes and any reasonable increase in scope of operation. The ratio of current assets to current liabilities, as you will note, was in excess of $4\frac{1}{2}$ to 1 after year-end dividend disbursements and other charges.

Your directors believe that the disbursements of quarterly dividends and the December extra dividend were liberal, but at the same time sound, by making available to the stockholders a liberal portion of the year's earnings but maintaining a strong financial position for the company after the retirements mentioned above.

The merchandise inventory figures represent what is considered to be a well-balanced stock soundly in line with current needs and anticipated requirements.

Sales for the calendar year just closed exceeded the sales of any year in the company's history. The increase in volume over the prior year developed without any substantial increase in the number of store units, the net year-end increase in number of stores being seven.

Net profits available to the Common stock for 1935 amounted to \$15,001,488.58 which is equivalent to \$6.08 per share on the 2,468,984 No Par shares issued at the close of the year.

This compares with \$15,527,737.39 for 1934 equivalent to \$6.29 per share on the 2,468,984 shares of Common stock outstanding at that year-end.

The slight reduction in earnings is entirely traceable to circumstances and conditions operative during the first half year as evidenced by the semi-annual report of the company for that period. Profits for the greater portion of the year were generally maintained proportionate to volume.

Over the past several years new developments have arisen for business generally, and, of course, also in our retailing field. Careful consideration and study have been and are being given to these larger problems. Without minimizing their complications, we believe that our present position, which was attained over the late years by concentration on a refinement of our distributing methods, affords our company an encouraging and satisfactory outlook.

Present plans call for a continuation of the effort toward all possible improvement in methods and for the policy of a selective rather than an extensive expansion program.

It seems fitting to again acknowledge the efforts and loyalty of the many associates in the stores and central offices of this company. I am sure the stockholders will join with the directors in their appreciation of these efforts and of the results obtained.

Respectfully submitted,
E. C. SAMS, President.

J. C. PENNEY CO.

A DELAWARE CORPORATION

BALANCE SHEET

As at December 31, 1932

ASSETS

Current Assets:

Cash in Banks and on Hand	\$ 8,674,807.95*
Accounts Receivable — Trade and Miscellaneous	747,348.82
Merchandise — as determined by responsible officials of the Company on the basis of physical inventories stated at the lower of cost or market	48,950,340.11
Total Current Assets	<u>58,372,496.88</u>

Investments in and Advances to Subsidiary Companies (including undistributed surplus) — at amounts as shown by Subsidiaries' Balance Sheets:

Advances	\$ 5,450,000.00	
Capital Stock and Surplus	<u>223,593.29</u>	5,673,593.29
Mortgages Receivable		90,263.22

Fixed Assets — at net sound values based on estimated replacement cost at December 31, 1932, plus subsequent additions at cost:

Land and Buildings	2,287,185.28
Less Reserve for Depreciation	<u>237,692.87</u>
	2,049,492.41

Furniture and Fixtures, less Provision for Depreciation	5,752,317.71
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Improvements to Leaseholds, less Amortization	<u>1,799,111.68</u>	9,600,921.80
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Deferred Charges — Unexpired Insurance Premiums, Rent Advances, etc.

680,652.04

Treasury Stock — undistributed balance of 106 shares of Common Stock authorized for resale to employees—at December 31, 1932 Market

2,610.25
\$ 74,420,537.48

NOTES:

*After deducting employees' contract compensation due at December 31, 1935 but paid subsequently thereto.

*It has been proposed that the Certificate of Incorporation be amended, at the regular stockholders' meeting, to authorize the sale of the common stock of the Company to the employees of the Company.

PENNEY COMPANY

LAWRENCE CORPORATION

BALANCE SHEET

December 31, 1935.

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 10,261,793.46
Provision for Federal Income Taxes	2,423,160.64

Total Current Liabilities 12,684,954.10

Reserve for Fire Losses, etc. and Employees' Death Benefits

1,866,970.88

Capital Stock:

Preferred 6% Cumulative, \$100.00 par value:

° Authorized, 300,000 shares.

Issued, none

\$ —

Common, no par:

Authorized, 3,000,000 shares.

Issued, 2,468,984 shares

23,622,766.67

Surplus (Earned):

J. C. Penney Company \$ 36,072,252.54

Undistributed Surplus of

Subsidiaries

173,593.29

36,245,845.83

59,868,612.50

\$ 74,420,537.48

subsequently thereto.

stockholders' meeting on March 21, 1936, to eliminate the authorized preferred stock.

J. C. PENNEY COMPANY

Profit and Loss Account

For the Year Ended December 31, 1935.

(Including Profits of Subsidiaries)

Sales		\$225,936,100.88
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$205,423,720.29	
Maintenance and Repairs	382,178.42	
Depreciation and Amortization (based on December 31, 1932 reduced book value or cost if acquired subsequently)	937,050.04	
Taxes other than Federal Income Taxes	<u>2,292,709.24</u>	209,035,657.99
		<u>16,900,442.89</u>
Discount on Purchases, Interest Received and Miscellaneous Income (Net)		732,999.39
Not Profit before Provision for Federal Income Taxes		<u>17,633,442.28</u>
Provision for Federal Income Taxes		<u>2,400,763.61</u>
		<u>15,232,678.67</u>
Add 1935 Profits of Subsidiaries		140,556.71
Transferred to Surplus		<u>\$ 15,373,235.38*</u>
Note:		
*Net Income, as above	\$ 15,373,235.38	
Deduct Preferred Stock Dividends Paid to date of Retirement	371,746.80	
Net Income Applicable to Common Stock	<u>\$ 15,001,488.58</u>	
Common Stock issued at end of year Shares	<u>2,468,984</u>	
Earnings per share, after Preferred Stock Dividends, on Common Stock (includes earnings of subsidiaries)	<u>\$ 6.08</u>	

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1934		\$ 30,412,171.89
Add:		
Net Adjustment of prior years' Federal and State Taxes after allowance for expenses incident thereto — J. C. Penney Company and Subsidiaries	\$ 30,964.69	
Restoration to Earned Surplus of excess over book value of proceeds of 39,894 shares of Treasury Common Stock sold to employees at approximate cost, after allowance for expenses incident thereto	<u>448,076.25</u>	479,040.94
		<u>30,891,212.83</u>
Less:		
Excess of cost over par value of 103,263 shares of Pre- ferred Stock retired during 1935	309,789.00	
Reduction of Investment in Subsidiary Company to pro- vide for excess of cost, including expenses incident thereto, over principal amount of \$2,250,000.00 of J. C. Penney Building & Realty Corporation Bonds redeemed during 1935, plus Unamortized Discount applicable thereto	<u>98,721.08</u>	408,510.08
		<u>30,482,702.75</u>
Add Net Income for 1935		<u>15,373,235.38</u>
		<u>45,855,938.13</u>
Less Cash Dividends:		
Preferred Stock	371,746.80	
Common Stock	<u>9,238,345.50</u>	9,610,092.30
Surplus at December 31, 1935		<u>\$ 36,245,845.83</u>

To the Directors of the
J. C. Penney Company,
New York, N. Y.

We have made an examination of the Balance Sheet of the J. C. Penney Company as at December 31, 1935, and of the Profit and Loss and Surplus Accounts for the year 1935. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Balance Sheet and related Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, its position at December 31, 1935, and the results of its operations for the year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.

February 27, 1936.

O F F I C E R S

J. C. PENNEY

Chairman of the Board

E. C. SAMS	President
LEW V. DAY	Vice-President
W. A. REYNOLDS	2nd Vice-President
J. I. H. HERBERT	3rd Vice-President and Treasurer
A. J. RASKOPF	Secretary
R. W. TROWN	Comptroller

D I R E C T O R S

J. C. PENNEY, Chairman

E. C. SAMS	G. H. CROCKER
GEO. H. BUSHNELL	W. A. REYNOLDS
J. I. H. HERBERT	EARL A. ROSS
L. W. HYER	A. W. HUGHES
LEW V. DAY	F. W. BINZEN